



THE FUTURE OF FANNIE AND FREDDIE

The familiar phrase “those who fail to learn from history are doomed to repeat it” often falls on deaf ears in our nation’s capital. Once again, this phrase rings true as Democrats advance socialist policies that will put Fannie and Freddie, the government-backed mortgage giants, at a higher financial risk.

BACKGROUND

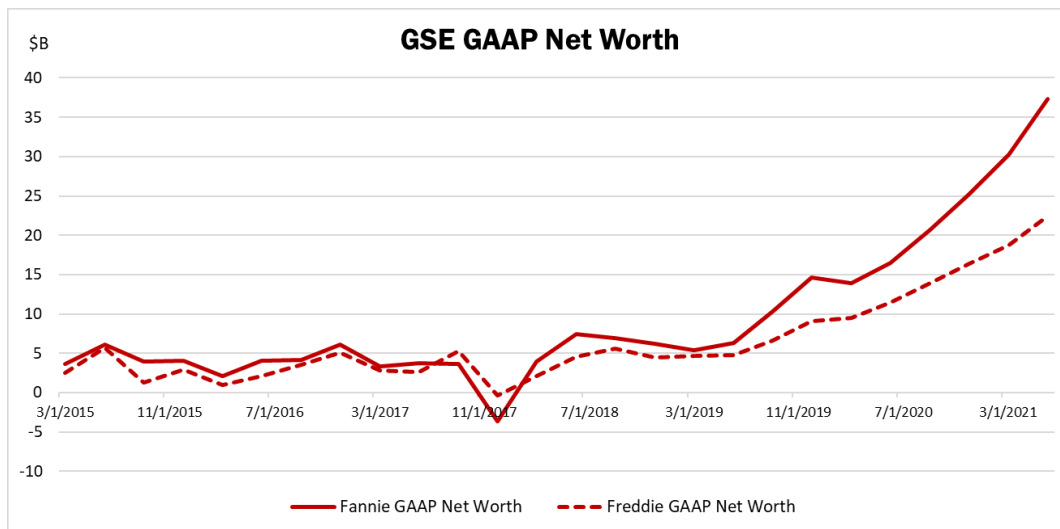
The Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”) were once private enterprises created by Congress. During the housing crisis in 2008, they were bailed out by U.S. taxpayers and put into conservatorship by the Federal Housing Finance Administration (FHFA), which guarantees investors who buy the mortgage-backed securities will receive the principal and interest even if the borrowers default.¹ Despite one of the stated goals of conservatorship being to prepare for eventual exit, Fannie and Freddie remain in conservatorship after more than a decade, keeping the taxpayers on the hook for potential losses.²

- **The Biden Administration is politicizing FHFA.**

- On June 23, 2021, the Supreme Court ruled in *Collins v. Yellen* that the President has the authority to remove the FHFA Director, overturning the historical structure that only allowed the director to be removed before the end of their five-year term for cause. Less than 24 hours after the decision was issued, President Biden removed FHFA Director Mark Calabria from his post.³
- Although the Supreme Court decided that the president has the authority to remove the FHFA Director, it is clear the motivation of the suit was a political and blatant effort to oust the Director of the independent federal agency so Biden could more easily push his woke housing agenda.⁴
- President Biden made this decision despite the fact he voted to make FHFA an independent agency to take it “out of politics” back in 2008.⁵

- **Fannie and Freddie’s exit from conservatorship looks farther away than ever.**

- Over the past few months, the Administration has been working to reverse actions former Director Calabria took to reduce the risk of the government-sponsored enterprises (GSEs) during his tenure.
- Under the leadership of Director Calabria, FHFA made the decision to require Fannie and Freddie to hold more capital so they could operate in a safe and sound manner if released from conservatorship and to reduce the risk to taxpayers, who would have to absorb potential losses of the GSEs in another crisis.⁶
- This decision put the GSEs on a stronger financial footing not seen in years by successfully reducing the leverage ratio of the GSEs by 75 percent and limiting their footprint, as seen by their increased net worth.⁷ This was also while overseeing the largest annual increase in homeownership among Black Americans.⁸



Source: Federal Housing Finance Agency

- Acting Director Sandra Thompson, Calabria's replacement, swiftly changed the course of the GSEs by amending the capital framework and suspending certain restrictions on the GSEs' risk taking.⁹
- Acting Director Thompson noted she believes it is FHFA's duty to ensure that all Americans have equal access to affordable housing. In her quest to achieve this goal that is not part of FHFA's mission statement, she is abandoning FHFA's actual stated mission that FHFA should ensure the regulated entities operate "in a safe and sound manner to serve as a reliable source of liquidity."¹⁰
- **The Biden Administration is setting the stage for another housing crisis.**
 - Throughout history, the government has used Fannie and Freddie to concentrate the risk of its housing policies and set up conditions for a record level of mortgage defaults.
 - For example, in 1968, the government took Fannie off budget and created Freddie in 1970 to fund a massive expansion of government subsidized housing. The U.S. Department of Housing and Urban Development's (HUD) program expanding the National Housing Act temporarily ended in 1973 in scandal when it contributed to the further deterioration of many city neighborhoods and left Fannie effectively insolvent by the early 1980s.¹¹
 - In the early 1990s through 2008, Fannie and Freddie were forced to take on risky loans after banks were pressured by the Clinton Administration using a provision in the 1977 Community Reinvestment Act to make subprime loans under the objective of "affordable housing."¹² In order to meet HUD's goals, Fannie and Freddie had to continuously reduce their mortgage standards.¹³
 - New research shows that mortgage risk rose steadily leading up to the 2008 housing crisis when the GSEs accounted for roughly 50% of the mortgage market, indicating their integral role in the crisis.¹⁴
 - Allowing the GSEs to buy riskier mortgage loans will incentivize banks to make it easier to buy a home, which will increase demand for housing or more expensive housing. Yet, this will not lead to lower housing prices or an improved housing supply, which is already under strain from high building material prices and labor shortages.¹⁵

POLICY SOLUTIONS

Fannie and Freddie should be released from conservatorship and returned to private ownership to ensure the taxpayers are not expected to finance another bailout if another housing crisis were to occur. To meet that goal, Fannie and Freddie must hold sufficient capital to absorb losses. In addition, Congress and the Biden Administration should not be incentivizing borrowers to buy more expensive homes than they are able to afford by increasing the GSEs' footprint and enabling further risk taking, which proved to be disastrous in the past.

- ¹ Mitchell Remy. Effects of Recapitalizing Fannie Mae and Freddie Mac Through Administrative Actions. Congressional Budget Office. August 2020. <https://www.cbo.gov/publication/56511>
- ² Conservatorship. Federal Housing Finance Agency. <https://www.fhfa.gov/Conservatorship>
- ³ Collins et. al. v. Yellen, Secretary of the Treasury, et al. October Term 2020. https://www.supremecourt.gov/opinions/20pdf/19-422_k537.pdf and Katy O'Donnell. Biden Removes FHFA director after Supreme Court ruling. Finance. June 23, 2021. <https://www.politico.com/news/2021/06/23/supreme-court-biden-fannie-mae-freddie-mac-housing-495673>
- ⁴ Jacob Passy. Supreme Court decision could help advance Biden's housing agenda—starting with the firing of the FHFA director. MarketWatch. June 23, 2021. <https://www.marketwatch.com/story/this-scotus-decision-could-pave-the-way-for-bidens-housing-agenda-11624466648>
- ⁵ Fannie Mae and Freddie Mac may be pilfered by government, Mark Calabria says. Fox Business. June 26, 2021. <https://www.foxbusiness.com/markets/freddie-mac-fannie-mae-mark-calabria>
- ⁶ Enterprise Regulatory Capital Framework. Federal Housing Finance Agency. June 30, 2020. <https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Enterprise-Regulatory-Capital-Framework.aspx>
- ⁷ Enterprise Minimum Capital Requirement & GAAP Net Worth. Capital Figures during Conservatorship – History Chart. <https://www.fhfa.gov/SupervisionRegulation/FannieMaeandFreddieMac/Documents/Capital-Figures-during-Conservatorship-History-Chart.pdf> and Thomas Wade. FHFA Releases Proposed GSE Capital Rule. American Action Forum. May 21, 2020. <https://www.americanactionforum.org/insight/fhfa-releases-proposed-gse-capital-rule/>
- ⁸ U.S. Census Bureau, Homeownership Rates by Race and Ethnicity: Black Alone in the United States [BOAAAHORUSQ156N], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/BOAAAHORUSQ156N>, October 15, 2021.
- ⁹ FHFA Issues Notice of Proposed Rulemaking to Amend the Enterprise Regulatory Capital Framework. Federal Housing Finance Agency. September 15, 2021. <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Issues-Notice-of-Proposed-Rulemaking-to-Amend-the-Enterprise-Regulatory-Capital-Framework.aspx> and FHFA and Treasury Suspending Certain Portions of the 2021 Preferred Stock Purchase Agreements. September 14, 2021. <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-and-Treasury-Suspending-Certain-Portions-of-the-2021-Preferred-Stock-Purchase-Agreements.aspx>
- ¹⁰ Sandra L. Thompson Announced as Acting Director of FHFA. Federal Housing Finance Agency. June 23, 2021. <https://www.fhfa.gov/Media/PublicAffairs/Pages/Sandra-L-Thompson-Announced-as-Acting-Director-of-FHFA.aspx> and FHFA AT-A-GLANCE. The Federal Housing Finance Agency. September 30, 2021. <https://www.fhfa.gov/AboutUs>
- ¹¹ Berry M. Flint. Mortgage Scandal in Detroit Could Cost U.S. \$200-Million. The New York Times. <https://www.nytimes.com/1971/12/04/archives/a-mortgage-scandal-in-detroit-could-cost-us-200million-us-may-lose.html> and Alex J. Pollock & Edward J. Pinto. The Next Housing Bust. Law & Liberty. September 6, 2021. <https://lawliberty.org/the-next-housing-bust/>
- ¹² Edward Pinto. Acorn and the Housing Bubble. The Wall Street Journal. November 12, 2009. <https://www.wsj.com/articles/SB10001424052748703298004574459763052141456>
- ¹³ Alex J. Pollock & Edward J. Pinto. The Next Housing Bust. Law & Liberty. September 6, 2021. <https://lawliberty.org/the-next-housing-bust/>
- ¹⁴ Morris A. Davis, William D. Larson, Stephen D. Oliner, and Benjamin R. Smith. A quarter century of mortgage risk. American Enterprise Institute. May 2021. <https://www.aei.org/wp-content/uploads/2021/05/Mortgage-Risk-WP.pdf?x91208>
- ¹⁵ Lucia Mutikani. Labor, building material mortgages depress U.S. single-family housing starts. Macro Matters. September 21, 2021. <https://www.reuters.com/world/us/us-housing-starts-beat-expectations-august-2021-09-21/>